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UNCLAS SECTION 01 OF 02 TAIPEI 000323

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STATE PLEASE PASS TO AIT/W, USEPA AND USTR

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USDOC FOR 4431/ITA/MAC/AP/OPB/TAIWAN/MBMORGAN
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USDA/FAS/ITP/MEYER, FARINA
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SUBJECT: TAIWAN PROPOSED PLASTICS BAN MAY OPEN WAY FOR U.S. BIOPLASTICS

1. Summary. Taiwan's Environmental Protection Agency (TEPA) is considering banning the use of certain plastics for food packaging. Costco and other food retailers are concerned about the potential impact of such a ban on costs and the availability of goods. In meetings with AIT, however, both Costco and TEPA showed a marked willingness to work toward a regulation that might benefit the environment without harming trade. This willingness to negotiate could present a major market opening for biodegradable plastics in Taiwan, which in turn could boost U.S. exports of corn to Taiwan (bioplastics are derived from corn). End Summary.

Costco Concerned about Draft Rule

2. On Friday January 14, AIT Ag, Comm, and Econ officers met with Costco's General Merchandising Manager Beverly Ayre to discuss a TEPA proposed regulation banning the use of plastic food packaging using PET (polyethylene terephthalate), PVC (polyvinyl chloride), and Styrofoam. Costco informed AIT about the "suddenness" of the proposed ban, which it had only heard about a week or two earlier, but was supposed to be put into effect by February 2005. Costco was concerned that such a ban could significantly increase its costs and sharply reduce the availability of many Costco products. Costco also had serious misgivings about the February 2 implementation date.

3. AIT inquired whether it might be possible to adhere to a PET, PVC and Styrofoam ban by substituting those products with biodegradable plastic (bioplastic) ones. Costco was receptive to AIT's presentation on the potential of bioplastics. At the meeting, AIT committed to work with TEPA to ensure that Taiwan follows the WTO process and that Costco and other affected parties are given adequate time to research alternatives to current plastic packaging and provide comments. AIT also successfully facilitated an agreement that Costco would meet with the U.S. Grains Council and Wei Mon Enterprises, the only local bioplastics manufacturer, to determine whether bioplastic could be an effective substitute for Costco's current food packaging.

TEPA Open to Bioplastic Proposals

4. Following the January 14 Costco meeting, AIT Ag, Comm, and Econ officers met with TEPA Director General for Waste Management, Chen Hsiung-wen, on January 20. TEPA confirmed that it had recently released an analysis of a ban on PET, PVC and Styrofoam food packaging based on a Legislative Yuan (LY) draft resolution. The draft resolution was given to TEPA in October 2004 and proposed that TEPA implement such a ban by February 2005. TEPA quickly acknowledged that it would be impossible to implement a ban by February. TEPA also assured AIT it would not do anything until it has evaluated: 1) the availability of substitute products, 2) the economic impact of the ban, 3) the ban's effects on consumers, and 4) the ban's trade implications. TEPA also committed to follow the WTO process and noted that it is under pressure from the traditional plastics industry not to take any action.

5. When AIT raised the possibility of using a PET, PVC and Styrofoam ban as an opportunity to promote bioplastics, TEPA expressed a willingness to explore any suggestions less controversial than the ban envisioned in the LY resolution (which passed on January 21st). TEPA also confirmed that it would give Costco and other affected parties sufficient time to research the feasibility of switching to bioplastics. Finally, AIT followed-up on a letter it sent to TECRO in December requesting that Taiwan repeal the 2.5 percent duty on polylactic acid (PLA)- the corn derivative used in bioplastics. TEPA replied that it was planning to remove

the tax when it revises Taiwan's overall Solid Waste Disposal Act next year.

Costco Meets U.S. Grains Council and Bioplastics Firm

16. On January 21, AIT arranged and participated in a meeting with Costco, the U.S. Grains Council and Wei Mon Enterprises to explore the possibility of Costco substituting its traditional plastic packaging with bioplastics. Costco presented all of the plastic food containers it currently uses and explained its requirements for cost, strength, size, and heat resistance. Wei Mon Enterprises and its packaging subsidiary agreed to bring its technicians to meet with Costco on Monday January 24 to further discuss Costco's exact specifications. Wei Mon promised to provide samples and price quotes to Costco within the next few weeks.

Comment - The Road has been Paved

17. Costco was very open to exploring more environmentally beneficial alternatives to traditional plastics as long as the price differentials were not excessive. Due to rising petroleum costs and consistent improvements in bioplastics, the cost difference between traditional and bioplastics has fallen dramatically in the last two years. The U.S. Grains Council claims that many bioplastics are now competitive with traditional plastics and that the differential has fallen from 30 to 10 percent. To further reduce the cost differential in Taiwan, AIT will also continue to push TEPA to remove the 2.5 percent PLA import tax. Despite these efforts, it is expected that for some products such as hot foods, bioplastics might not work. In that case, AIT would coordinate with industry and TEPA to ensure TEPA's plastic packaging rule accommodates the use of traditional plastics where necessary.

18. If, however, there are products for which Wei Mon were able to provide bioplastic alternative packaging that would meet Costco's cost and quality requirements, it would represent a major market opportunity for bioplastics in Taiwan. Should this be the case, AIT would follow-up with other food chains and the American and European Chambers of Commerce to enlist broad support for a TEPA plastic packaging ban that would promote bioplastics where feasible and allow for traditional plastics where necessary. AIT will continue to provide updates as more information becomes available.

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